

BISNIS Outreach - Prospects in Russia's regions

St. Petersburg, Russia

The city of St. Petersburg together with the Leningrad Region, is the key trade, transport, finance, manufacturing, education, scientific and tourism hub of Northwest Russia. A number of prominent multinational companies have made significant investments in the region including ConocoPhillips, International Paper, Phillip Morris, Kraft Foods, Caterpillar, Motorola, Otis, Ford, Coca Cola, Pepsi, and Gillette.

Around 86% of the total industrial production in St. Petersburg is concentrated in four sectors: machine-tool building and metalworking, food processing, power generation and metallurgy. The neighboring Leningrad Region is overtaking St. Petersburg in the pace of industrial development due to its close proximity to the city and availability of space for development of large projects. The key industries of Leningrad Region are food processing, oil processing and transportation, chemical and petrochemical, forestry, wood processing and pulp & paper, metallurgy, metalworking and engineering, and building materials manufacturing. Speaking of Northwest Russia as a whole, the largest share of its industrial output is in metallurgy (20%), chemical and petrochemical (12-15%), logging, wood processing and pulp & paper (10-13%), oil/gas (10%), machine-tool building (10%), food processing (9%), power generation (9%) and non-ferrous metallurgy (6%).

Several consumer-oriented industries have shown solid growth rates. Foreign exporters, who had gained shares of the Northwest Russia's market before, have found it more profitable to move part of their production (often assembly/packaging operations) closer to their customers. Food processing has definitely been a beneficiary of this trend. Another quickly expanding sector has been (and continues to be) building material manufacturing, supported by the deficit of residential housing and the resultant overpriced market.

Nizhny Novgorod, Russia

The primary sectors and products in the region include machine building, petrochemical products, vehicles & spare parts, newsprint, electrical tools, and pharmaceutical goods. Major imports are machines, vehicles, spare parts, steel, petrochemical and food products, which come from Germany, Ukraine, Czech Republic, Hungary, China, Finland, Italy, Spain, Ukraine, and Indonesia.

By late 2002, total foreign investment in the region had approached 400 million USD. German companies have been the most predominant among foreign investors and include: Knauf (construction materials), Wella (cosmetics & washing products), Udhe (engineering), Bericap (plastics), Troplast (polymer & glass), and Jowat (construction materials). US investors include Instrum-Rand, a subsidiary of Ingersoll-Rand (electrical tools and devices), Lear, a subsidiary of Lear Corp. (car seats and interior components), Intel Nizhny Novgorod Lab (information technologies, R&D), and Coca-Cola. Other major investors are Gloverbel (glass production), Europe Foods (food concentrates), FIAT (Nizhegorodmotors), and Spar (food supermarkets). Three more large foreign companies – Stora Enso Packaging (corrugated cardboard), IKEA (furniture production & trade) and Metro (cash & carry supermarkets) announced their investment plans in the region in 2003. The European Bank for Reconstruction and Development (EBRD), and the International Finance Corporation (IFC) are active participants in investment projects in the Nizhny Novgorod region.

Principal Russian companies of the region include the following:

- GAZ automotive company. Established in 1932 with Ford's equipment, the company produces Volga sedans, GAZelle and Sobol light commercial vehicles (LCVs), Sadko trucks, and a number of other vehicles. GAZ is the second largest carmaker in Russia.
- PAZ Pavlovo bus company. The company produces small and middle-size buses for city and inter-city transport.
- ZMZ Zavolzhye motor plant. The company produces gasoline and diesel engines. In 2002, ZMZ manufactured 250,686 engines (+2.4% compared to 2001). In 2002, the company's annual sales totaled US\$ 215.6 million.
- VMZ Vyksa metallurgical plant. The company is a large producer of railroad wheels, and metal tubes and pipes.

Samara, Russia

Located on the Volga River 600 miles southeast of Moscow, the Samara oblast is an economic leader in the Privolzhskii Federal District (PFD). The Samara oblast has consistently been in or near the top 10 regions in Russia in attracting foreign investment. The volume of direct foreign investment per capita exceeds by 50% the average level in Russia. Investors include Corning, Delphi Automotive, PepsiCo, Coca-Cola, Nestle, and Danon. Both Corning and Delphi have joint ventures with the Samara Cable Company, producing optical cable and auto wiring harnesses, respectively.

In the industry structure of the region, machine building is the largest sector of the Samara oblast's economy. The main products are automobiles, aircraft, engines, oil-production equipment, hydro turbines, bearings, and cable. Automobile production constitutes 81 percent of all machine-building output. The AutoVAZ plant is the largest passenger carmaker in Russia and produces around 700,000 cars annually. It is also the location of the joint venture between AutoVAZ and General Motors.

Since WWII, the Samara oblast has been home to leading Russian aircraft, aircraft engine, rocket, and satellite manufacturers. The Samara Metallurgical Plant, the largest manufacturer and supplier of semi-finished aluminum products in Europe, is in Samara and was purchased by Alcoa in 2004.

As for agriculture, there are 3 million hectares of arable land in the region. Main crops are grain, sunflowers, sugar beets and potatoes. The food-processing sector is one of the most active in the Samara oblast. European companies have been the most aggressive and successful investors here. Nestle Foods is the main investor in the Rossiya Chocolate Factory, the largest in Russia. Danone has a factory in Togliatti. Both Coca-Cola and PepsiCo have bottling plants in Samara.